

# UTAH TOURISM UPDATE

## April 8, 2003

### Introduction

This weekly report provides a summary of major news stories and events impacting Utah tourism, including new developments. This week's focus turns to the impact SARS is having on travel worldwide. Further, new survey data is available regarding the impact of the war in Iraq on travel plans.

We believe Utah's travel and tourism industry will continue to be significantly impacted by external events such as the war in Iraq, health concerns in Asia, and economic conditions in major markets. Further, internal factors such as airline restructuring, industry performance and profitability, and competitor activity also provide insight into what Utah might expect in the short- and long-term environment.

### SARS Update

**UTAH TRAVEL IMPLICATIONS:** SARS only intensifies the already poignant safety and security issues from Asian markets and further dampens travel expectations from this region. More positively, the reluctance of many U.S. and Canadian vacationers to travel to Asian destinations may prompt some additional visits to U.S.-based attractions.

**BUSH PLACES SARS ON QUARANTINE LIST:** President Bush last week gave federal health officials standby power to quarantine anyone suspected of being infected with the SARS disease. The last addition to the federal quarantine list was the Ebola virus, 20 years ago. (*Washington Post*, Apr. 5, 2003)

**SARS FEARS SPREADING:** Among international travelers, the SARS virus is curbing demand for trips to many destinations. The latest figures suggest the death toll from the virus has risen to 100 and the number of suspected cases tops 2,300. According to one travel expert in Los Angeles, "people flying, especially to Asia, are nervous. ... but I've had calls and emails from people on the East Coast asking about travel to the Caribbean." Suppliers of masks have reported huge sales and scarce supply not only in Asia, but also in parts of San Francisco and Southern California. Similarly, calls have increased to hospitals and health clinics in the Bay Area. (*USA Today*, Apr. 7, 2003)

**ASIAN TRAVEL OUTLOOK DIMMING:** Japan's two largest airlines, JAL and All Nippon Airways, have reported more than 16,000 cancellations of international flights for March and expect up to 30,000 cancellations for March and April combined. Although most of the cancellations have come from passengers to other Asian markets impacted by SARS, airline representatives indicated that reduced demand was noticeable in routes to nearly all destinations. JTB said its reservations for overseas package tours for April and May had dropped by 35% and 40%, respectively, compared with last year. JTB's Los Angeles office reports calls for cancellations or postponements daily, mostly related to safety concerns. Other Asian airlines including Singapore Airlines, Cathay Pacific, Dragonair, and Thai Airways have also cut flights. Even U.S. routes were affected by drop-offs in demand. JAL cancelled three flights to Las Vegas in mid-April and although no further cancellations were expected, airline officials said that continued poor sales could lead to additional cancellations. Continental also announced plans to cancel all direct flights between New York and Hong Kong. (*Washington Post*, Apr. 4, 2003/*Bloomberg*, Apr. 7, 2003/*New York Times*, Apr. 4, 2003/*Las Vegas Review Journal*, Apr. 3, 2003)

**SARS THREATENS EAST ASIAN ECONOMIES:** Asian economic growth may be dragged down by the effects of SARS. Already, the virus has caused major impacts to airlines, hotels, retailers, and export-based technology companies. Morgan Stanley cut its 2003 growth forecast for Asia outside Japan to 4.5% from 5.1% and growth may further decline if the outbreak lasts into the summer months. (*Bloomberg*, Apr. 7, 2003)

## **Industry News**

**UTAH TRAVEL IMPLICATIONS:** The outlook for Utah's summer season remains cautiously optimistic. Utah is currently in a transition from winter travel to summer travel. Anecdotal reports suggest few, if any, war-related impacts on Utah's ski season. In addition, several contacts indicate positive pre-bookings for summer travel. Despite higher energy costs, most travel is not based on the cost of gasoline. Travelers will likely adjust other aspects of their trip to accommodate increased travel costs. For example, the trend to vacation closer to home this summer may be strengthened.

**WAR EFFECTS SPRING TRAVEL:** According to TIA's spring Travelometer, Americans will take 1.6% fewer leisure travel trips this spring (March, April, and May) and 2.5% fewer business trips. Dr. Suzanne Cook remarked, "Although TIA surveys show that consumers' interest in travel continues to grow, it's clear that the build-up to war and now the war itself has greatly impacted spring travel plans. ... In the short-term, leisure travel will continue to be depressed as U.S. travelers are more reluctant to commit. They are postponing trip planning and waiting until the last minute to book their trips." (*TIA, Mar. 31, 2003*)

**MAJORITY STILL TRAVELING:** According to a recent survey by Yesawich, Pepperdine, Brown & Russel, a large majority of vacationers will press on with travel plans despite the war and heightened security levels. Three-fourths of travelers said the war will not impact their travel plans. Among the 25% who would change plans, the most frequent adjustments were fewer or no international trips, more driving instead of flying, and trips closer to home. (*Orlando Sentinel, Apr. 1, 2003*)

**MORE EVIDENCE OF TRAVEL:** According to AAA's first weekly National Travel Barometer, bookings for the third week of March were 76% of what they were a year ago. Further, AAA believes that the decline is due mostly to people waiting until later in the season to book their early summer vacations. AAA expects demand for summer travel to strengthen as Memorial Day approaches. A separate survey conducted by Newsweek and Arthur Frommer's Budget Travel announced that 91% of travelers they spoke with had not changed summer vacation places to avoid air travel. Only 20% indicated they would be less likely to take a domestic plane trip. A third survey by Fodor's said that 76% of respondents were not changing their travel plans because of the war in Iraq. (*AAA, Apr. 1, 2003/Detroit Free Press, Apr. 4, 2003*)

**TRAVEL BARGAINS AVAILABLE:** In recent weeks, many tour operators have cut rates on vacation packages with spring and summer departures, including on some tours to the U.S. by as much as 5 to 10 percent. As the war drags on and the effects of SARS become more widespread, leading travel analysts suggest that airline and hotel prices will also drop in an attempt to stimulate interest from vacationers. (*New York Times, Apr. 6, 2003*)

**TOURISTS CHOOSE U.S. DESTINATIONS:** In the face of war concerns, travel agencies across Europe reported shifts from Middle Eastern and North African trips to the Caribbean and the United States, where, thanks to the weak dollar, travel is cheap for Europeans. (*New York Times, Apr. 2, 2003*)

**OIL PRICES FALL FOR SECOND STRAIGHT WEEK:** The U.S. average retail price for regular gasoline fell last week for the second week in a row. Prices dropped by 4.1 cents per gallon as of March 31 to hit 164.9 cents per gallon, which is still 27.8 cents per gallon higher than a year ago. California retail prices remained above \$2 per gallon for the fifth week in a row, and average prices for the West Coast also stayed above the \$2 per gallon mark. (*Energy Information Administration, Apr. 2, 2003*)

**HOTEL PERFORMANCE LAGGING:** Smith Travel Research reports that for the last week in March, occupancy rates and room rates increased slightly over one year ago. However, the travel consultancy cautions that the comparisons to last year are skewed because the same week last year was the Easter holiday. Comparisons to 2001 levels show a 9% decline in occupancy and a 4% decline in room rates. (*TIA, Apr. 4, 2003*)

## **Destination News**

**UTAH TRAVEL IMPLICATIONS:** Comparisons with the first quarter of 2002 are difficult due to the Olympic-induced surge in business. However, the latest data available through February suggest rates and occupancy are slightly below 2001 levels. Airport passengers and national parks visits are up slightly from 2002, although most other indicators point to fewer visitors. Although sensitive to current developments, a *Utah!* branding campaign is scheduled to run in select Western markets in May and June. The campaign will focus on market-specific television and radio placements, national and regional magazine ads, and some Internet advertising.

**TRAVEL PROMOTERS SPLIT ON ADVERTISING:** The Las Vegas Convention and Visitors Authority said it plans to continue its national television ad campaign after a one-week hiatus. Tourism leaders in Florida are also ready to crank up ad campaigns, although they have narrowed their target to travelers from Florida and adjacent states. Hawaii has proposed an additional legislative appropriation of \$8 million for immediate tourism promotion. Major airlines such as Delta, Continental, Southwest, and JetBlue have continued to advertise. Other airlines, noticeably United, American, and US Airways, are more reluctant. Other businesses are also unsure about the efficacy of advertising in the current climate. California pulled ads intended to run in 8 western states. Officials at some hotels and casinos in New England, as well as major hotelier Starwood, have postponed ad campaigns until conditions improve. (*New York Times*, Apr. 2, 2003/*TIA*, Mar. 31, 2003)

## **Airline News**

**UTAH TRAVEL IMPLICATIONS:** Airline struggles, while significant, pose little threat to Utah tourism. The reductions in capacity are likely to occur on international routes and on underutilized routes with multiple flights. The most pressing issue for Utah travel remains the psychological impacts of air travel in uncertain times (security related, health related, and/or economic related).

**NEW U.S. AIRLINE MARKETING ALLIANCE:** The U.S. Department of Transportation reversed an earlier decision and gave the go-ahead to a proposed alliance between Delta, Continental and Northwest. The alliance would allow codesharing and frequent flier reciprocity. The alliance will still be monitored by the DOT regarding collusion on fares, routes, and capacity. (*Travel Mole*, Apr. 2, 2003)

**EUROPEAN CARRIERS REPORT TRAFFIC DECLINES:** British Airways, Europe's biggest airline, reported an 11% drop in traffic in March, citing war and SARS impacts for the decline. Flights declined on all routes, including an 8% drop to the Americas and a 27% drop to Asia-Pacific destinations. Even intra-Europe traffic fell 7%. Dutch carrier KLM also reported capacity cuts of 20% on its US and Middle East routes in response to falling demand. Air France, Lufthansa, and SAS are also expected to report traffic declines. ***Despite the difficulties by large carriers, discount airlines EasyJet and Ryanair reported significant increases in their traffic, pointing to an increase in low-fare point-to-point leisure travel within Europe.*** (*Bloomberg*, Apr. 7, 2003)

## **Economic News**

**UTAH TRAVEL IMPLICATIONS:** A sustained U.S. economic recovery would be the most positive development for domestic tourism. Despite some positive signs related to the stock market and wages, employment and confidence are still struggling to gain momentum. Current exchange rates will make Utah-based packages and products more affordable as travel agents and wholesalers are able to reflect dollar depreciation through discounted prices. War worries and economic concerns will likely dampen travel from major European markets this summer. Asian travel may be hurt as well as the region suffers secondary economic repercussions from the SARS disease.

**U.S. EMPLOYMENT FALLS:** The job market continued to deteriorate in March as the economy lost 108,000 jobs according to a U.S. Labor Department report. Since the nation's payrolls peaked nearly two years

ago, the economy has lost almost 2.4 million jobs, across almost every sector of the economy. The continued losses are keeping consumer sentiment low and may begin to more seriously impact spending. The period marks the longest stretch without employment growth in 20 years. (*New York Times*, Apr. 5, 2003)

**GERMAN UNEMPLOYMENT HITS 5-YEAR HIGH:** German unemployment rose to a five-year high in March as the war in Iraq and the stagnating economy led companies to shed jobs and freeze investment. The unemployment rate rose to 10.6% in March. Business confidence fell the most in seven months in March and consumer confidence remained at an eight-year low. Across the Euro-zone, consumer confidence fell to a nine-year low as employment concerns prompted increasing pessimism (*Bloomberg*, Apr. 3, 2003)

**EURO UNEMPLOYMENT WORSENS:** Euro-zone labor markets continue to show a slow deterioration. The unemployment rate has now increased in the Euro-zone in four of the last six months. Labor market conditions are deteriorating, which, when combined with very dour sentiment, represents a considerable risk to consumption for the first half of the year. (*Economy.com*, Apr. 1, 2003)

## **Overall Assessment**

In the short-term, expect the fear about war in Iraq and the rising threat of retaliatory terrorism, coupled with the downward spiral in consumer confidence, to further delay recovery of the travel industry and to put a damper on spring travel. Also expect many of the emerging patterns in leisure travel to continue and perhaps even intensify. ... A quick resolution to the war in Iraq could result in some recovery in leisure travel by the summer season. ... But if the war continues longer than expected or other complications emerge, the prospects of a full recovery in leisure travel, and of a healthy summer season, would dim significantly. (*TIA*, March 26, 2003)

**Best Case** – Americans take advantage of deep discounting as well as flexible refund policies to travel in numbers nearly equal to a year ago. Gas prices quickly stabilize at or below current levels to encourage drive vacations.

**Worst Case** – Rapidly escalating gas prices and random acts of terrorism cause Americans to suspend all but necessary travel. Even domestic travel would suffer due to the “fear factor” and higher costs of travel. (*AAA*, March 20, 2003)

## **Utah Outlook**

Despite the large amount of “gloom and doom” reports regarding the travel industry, there are several trends that may positively impact Utah’s position in the market:

- Utah is perceived as a safe, affordable destination
- Large majority of summer travelers are drive or short-flight visitors from the Western states
- Still enjoying afterglow of Olympic destinations and infrastructure
- “Escape to nature” a good way to relax and rejuvenate from stresses of round-the-clock war coverage
- Rural America and national parks benefiting from renewed emphasis on family, nature, heritage, and culture as well as increasing attention on personal and spiritual renewal